

Circular #2010-01: Billing Direct Contract/Purchased Labor:

The following guidelines are issued to aid both our consultants and their Independent External Auditors by setting standards for billing direct/project contract labor, and verification of the accuracy and consistency of these procedures through the job cost, payroll, general ledger and billing systems for both commercial and governmental projects by the CPA.

**Chapter 5 – Cost Accounting**

**5.4 – ALLOCATED COSTS**

**G. Contract Labor/ Purchased Labor**

[Reference: CAS 418]

In some cases, engineering consultants contract for services provided by outside engineers, technicians, and similar staff rather than hiring these individuals as employees. This is commonly referred to as “Contract or Purchased Labor.” The accounting treatment varies, depending on the circumstances under which the purchased labor costs are incurred.

Two acceptable methods of accounting for this labor are:

1. Charged as a direct cost to projects, or
2. Treated as other labor (direct or indirect as appropriate)

CAS 418 requires that pooled costs be allocated to cost objectives in reasonable proportion to the causal or beneficial relationship of the pooled costs to cost objectives. Contract labor must share in an allocation of indirect expenses where such a relationship exists and the allocation method is consistent with the engineering consultant’s disclosed accounting practices. A separate allocation base for purchased labor may be necessary to allocate significant costs to contract labor, such as supervision and occupancy costs, or to eliminate other costs, such as fringe benefits, that do not benefit purchased labor.